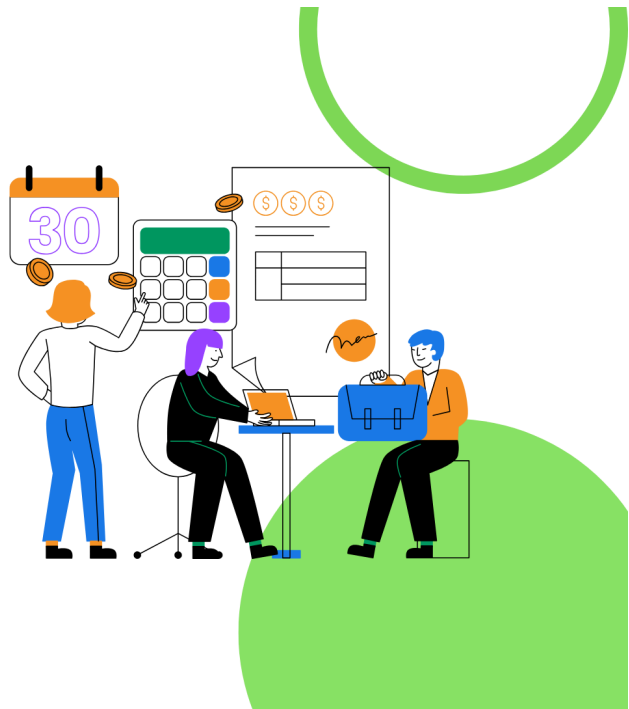**BDGA GSS**
SIMPLIFYING FINANCE

Stop these mistakes !

5 common payroll mistakes small businesses makes

5 common payroll mistakes you're making as small business owner and how to fix them:

Running a business in its early stages is accompanied by so many responsibilities. Dealing with taxes, paying employees on time, having correct records, and avoiding costly errors. In this article, we'll discuss in-depth some of the most common payroll mistakes small businesses make and how to steer clear of them.

1. Misclassification between employees and independent contractors:

One of the most prevalent payroll errors small businesses make is the misclassification of employees. The IRS has provided detailed explanations regarding who qualifies as an employee and an independent contractor.

Employees are entitled to benefits such as overtime compensation, unemployment benefits, and tax withholding; misclassifying them can lead to heavy fines, penalties other tax reporting problems.

How to avoid it: Review IRS Form SS-8 and regulations, or having an expert payroll service or software can help you to properly classify your employees.

2. Missing Payroll Tax Deadlines:

Federal, state, and local governments require timely payment and reporting of payroll taxes. Delayed tax deposits or filings of forms such as Form 941 or Form W-2 result in significant fines and interest.

How to avoid it: Use a payroll calendar or [payroll software](#) that automatically calculates and pays taxes.

3. Miscomputing Overtime Pay:

Non-exempt employees who work more than 40 hours in a workweek are entitled to overtime pay under the Fair Labor Standards Act (FLSA) at a rate of 1.5 times their regular rate. Legal issues like fines, penalties, and even serious lawsuits can result from inaccurate calculations or from failing to pay overtime.

How to prevent it: Familiarize yourself with federal and state overtime regulations and employ an effective time-tracking system.

4. Incorrect Timekeeping:

No matter if your business has hourly or salaried workers, monitoring work hours is important. Using outdated or manual systems can lead to
timekeeping mistakes that result in underpaying or overpaying workers, which affects your overall business.

How to prevent it: Having a computerized time-tracking tool that synchronizes with your payroll system can easily address this issue.

5. Not Keeping Correct Payroll Records:

IRS regulations have proper guidelines to keep payroll records for at least four years. These include time cards, pay stubs, tax forms, and direct deposit authorizations. Inaccurate recordkeeping can lead to issues during audits or employee disputes.

How to avoid it: Maintain organized digital or paper files of all payroll activities and back up them securely.

Conclusion

By being aware of these common payroll errors and avoiding them beforehand, you can protect your company from unnecessary costs and ensure your staff are paid accurately and promptly.

If you are not comfortable doing payroll yourself, it is good to spend money on professional payroll software or to hire a payroll expert. It will definitely save your time, money, and a great deal of headaches.

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